

25 October 1974

## MEMORANDUM

SUBJECT: Austria Today

Summary

Compared to other West European countries experiencing serious political or economic problems, Austria is presently an island of tranquility. Socialist Chancellor Bruno Kreisky has been the government leader for nearly five years and his party enjoys a solid majority in parliament. The economy, in its seventh consecutive boom year, has been able to bear the high cost of energy with some inflation but without serious unemployment or balance-of-payments problems. Kreisky's success in expanding economic cooperation with Iran and the Arab states has helped assure adequate oil supplies, causing the government to be cautious about multilateral approaches towards the oil-producing states. The difficulty in controlling inflation, nevertheless, has hurt the Socialists in recent state elections and may lead Kreisky to advance national elections from their October 1975 deadline in order to maximize the party's political fortunes.

Austria's foreign ambitions are narrowly defined, designed largely to insulate Austria from political and economic upheaval and to play a role in facilitating East-West detente. Austria and Austrians remain largely anti-Soviet and anti-communist, but improving relations with East Europe has been a prime goal of most post-war Austrian governments. A prime concern for Kreisky in Washington will be the question of emigration of Soviet citizens, in which Austria has played a prominent role for several years by providing a transit facility near Vienna.

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Kreisky, His Party and Programs

Bruno Kreisky is an Austrian Horatio Alger, at least in terms of his rise to political prominence. Born into a well-to-do Jewish family in Vienna and exiled to Scandinavia during the Third Reich for his ardent Socialist views, he started his political career with two strikes against him in a country noted for its conservative, Christian, rural traditions. Like his close personal friend Willy Brandt, Kreisky has succeeded in giving socialism a respectable name by divesting his party of its Marxist heritage for a moderate, reform-minded political platform. Largely as a result of his efforts, the Socialists have won the last two national elections, permitting them to govern alone for the last three years. Although the Socialists have only a three seat majority, they vote as a disciplined bloc in contrast to the opposition parties: the large People's Party, which is predominantly Catholic, and the Freedom Party, a small group that voices a nationalistic viewpoint.\*

Kreisky's biggest political problem is convincing the electorate that the Socialist can control inflation -- currently at about 9.5 percent -- without jeopardizing the prosperity that nation has enjoyed in recent years. On October 16, the Chancellor announced a new program to reduce energy consumption that will be extensively publicized in the media and in a poster campaign. A new advisory council has been established to work with industry to devise ways energy can be saved.

Pressures for wage increases, however, are growing, and the government will have a tough time securing parliamentary approval for stronger price controls. Should Kreisky feel the need to call early elections, the Socialists would probably still remain the largest party with a good chance, if necessary, of forming a coalition with the Freedom Party that has cooperated indirectly with Kreisky in the past.

Austria's Foreign Posture

Given the nation's commitment to neutrality under the State Treaty of 1955, foreign policy issues rarely become a bone of contention between the Kreisky government and the two conservative opposition parties. Austria's foreign ambitions and external interests are narrowly defined and designed primarily to

\* In the Austrian lower house of parliament (*Nationalrat*), the Socialist Party holds 93 seats, the People's Party 80 and the Freedom Party 10. National elections must be held at least once every four years. Chancellor Kreisky's term of office ends in October 1975.

insulate Austria from political and economic upheaval. All the major parties have committed themselves to making Austria a force for international peace, hoping in particular to strengthen Vienna's reputation as a place where detente between the two halves of Europe could be built. Most Austrians are gratified that the negotiations on troop reduction (MBFR) are located in their capital, which also serves as the center for several other international organizations.

In spite of Austria's neutral status, the country -- its people and its political parties -- remain anti-Soviet and anti-communist. Internally, the Austrian Communist Party now musters no more than one percent of the national vote. On East-West issues, Austria's inclination is Western. At the CSCE, Austria has sided with the Western states on major East-West issues and Austria sees its own security as guaranteed not only by its neutral status but by the strength of NATO as well.

Improving relations with East Europe has nonetheless been a prime goal of most post-war Austrian governments. Austrians believe that their historical and cultural ties to the East enhance their special role in expanding European detente. Exchanges of high-level visits and the conclusion of long-term economic cooperation agreements are the main ingredients of Austria's official relations with the East. Kreisky, for example, visited the Soviet Union and Poland this year to discuss ways to expand commercial relations and will presumably focus on the same subject when he visits Romania and Bulgaria next spring.

Austria generally enjoys a trade surplus with the Eastern countries -- with these nations accounting for nearly 17 percent of Austria's total exports. The liberalization of import restrictions on Eastern goods and agreements to make payments in freely convertible currencies are two factors contributing to the expansion of trade. Vienna, nevertheless, is displeased at Soviet unwillingness to increase deliveries of natural gas. The Soviets, who are also demanding higher prices, presently supply Austria with about half of its natural gas requirements.

#### Kreisky's International Role

Most of Kreisky's activity on the international scene is directed toward diversifying the nation's energy sources. He led a delegation representing the Socialist International to the Middle East last spring and will head another immediately after his visit to Washington. These trips are designed to strengthen ties between European and Arab socialists. These efforts, coupled with Kreisky's individual visits to oil-producing countries to sign long-term "economic cooperation" agreements, have enhanced Vienna's political stature in the Arab World.

Kreisky's diplomacy and the recent success of Austrian banks in securing large loans from Arab states make Vienna lukewarm about any multilateral approach to oil-producing states. The Austrians are exploring the possibility of joining the International Energy Program currently being drafted by Western nations but, like the French, they do not want to risk a confrontation with oil-producers. Vienna is concerned about preserving its neutral status and is probably not eager to share its own sizable domestic oil reserves in the event of another Arab oil embargo. The Austrian penchant for bilateralism is reflected in their desire to host Egyptian President Sadat before the end of the year.

#### Kreisky's Concerns in Washington

As for relations with Washington, Kreisky is interested in learning more about the US-Soviet agreement on the emigration of Soviet citizens. The Austrians for several years have provided a transit facility near Vienna for Soviet emigres, mainly Jews, at considerable cost and risk of Arab terrorist attacks. Kreisky may wish to discuss with US officials ways in which the political and administrative burdens of processing these emigres can be more equitably shared by West European countries in the future.

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